



**CITY OF HURDLAND, MISSOURI  
YEAR ENDED JUNE 30, 2001**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2002-50  
July 8, 2002  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

July 2002

The following problems were discovered as a result of an audit conducted by our office of the City of Hurdland, Missouri.

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Our review of the city's sewer records and procedures disclosed several concerns including:

- The city does not maintain a general ledger that documents the amount and date sewer payments are received and the composition of the receipts. As a result, the city could not perform a periodic reconciliation of total amounts due, payments received, and delinquent amounts for sewer services.
- The Sewer Collector prepared inaccurate monthly financial reports for the Sewer Fund which reported cash balances that were on an average \$7,417 higher than the actual Sewer Fund balance.
- The city has not performed a formal review of the adequacy of sewer rates since 1998.
- Supporting documentation or an independent approval of customer removals from the sewer billing system was not always retained.

Our audit noted various appointments and questionable transactions between the City of Hurdland and various board member's family, or their family corporations or businesses.

Because of the serious consequences which result by hiring a relative, the board should ensure its members abstain from any decisions to hire a relative and ensure that action is fully documented in the board minutes. In addition, the board should consider establishing a policy which addresses these types of situations and provides a code of conduct for city officials.

Also included in the audit are recommendations related to expenditures, board meetings and records, budgets, road maintenance planning, published financial statements, ordinances, accounting controls and policies, restricted revenues, property records, and other sewer operating procedures.

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YELLOW SHEET

CITY OF HURDLAND, MISSOURI

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STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Aldermen  
City of Hurdland, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Hurdland, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Hurdland, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill  
State Auditor

May 17, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA  
Audit Manager: Pam Crawford, CPA  
In-Charge Auditor: Joyce Medlock

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF HURDLAND  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Sewer System Procedures</b>
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The city operates a sewer system that provides service to approximately 100 customers. Each customer is provided a payment book and is required to pay a monthly fee of \$12.55 by the tenth of each month in accordance with city ordinance. If payment is not made by the tenth of each month, a delinquent fee of \$2.50 is assessed, and delinquent notices are required to be mailed out by the thirtieth of each month. A review of the city's sewer records and procedures disclosed the following concerns:

- A. The city maintains a subsidiary sewer ledger which documents sewer payments for each resident by month; however, a general ledger is not maintained to indicate the amount and date the payment was received or the composition of the receipt. As a result, the city can not perform a periodic reconciliation of total amounts due, payments received, and delinquent amounts for sewer services. For example, we compared amounts recorded in the sewer ledger to amounts deposited into the sewer operating account including advance payments for the month of January 2001. Due to the incomplete records maintained by the city, we were unable to determine whether sewer fees recorded in the sewer ledger totaling \$155 were deposited into the city's sewer operating account.

A detailed sewer ledger that documents the amount and date fees are paid and the method of payment at the time of receipt is necessary to ensure sewer fees are properly accounted for. Periodic reconciliations are also necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis.

- B. The Sewer Collector also prepares monthly financial reports for the Sewer Fund; however, they were not always accurate or complete. For example, during the period January through December 2001, the cash balances reported on the financial reports presented to the board were on an average \$7,417 higher than the actual Sewer Fund balance. In addition, several monthly financial reports did not foot, and the ending balance for some months did not always agree to the following month's beginning balance. Additional concerns noted in MAR #7 regarding the city's lack of internal controls contributed to these errors.

An accurate monthly financial report should be prepared to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. In addition, to ensure all revenues and expenditures are accounted for properly, the reports should be reviewed for accuracy by the Board of Aldermen.

- C. The city has not performed a formal review of the adequacy of the sewer rates since 1998. Sewer fees are user charges which should cover the cost of providing the related services. Expenditures from the Sewer Operating Fund increased approximately 65% due to unplanned sewer repair expenditures during the year ended June 30, 2001. The city should perform a detailed review of its sewer costs periodically, including depreciation and debt service costs, and set rates to cover the total costs of operation including any unforeseen repairs.
- D. Supporting documentation or an independent approval of customer removals from the sewer billing system was not always retained. According to city officials, all customers that are removed from the sewer billing system must be approved by the Board of Aldermen; however, during our review, we noted several customers which were removed from the sewer billing system that were not approved by the board. City officials indicated that most of these customers were removed from the sewer billing system because the properties owned were vacant.

To ensure that all customer removals are valid and properly approved, someone independent of receipting and recording functions should review all removals and proper supporting documentation should be maintained of such removals.

- E. The \$2.50 delinquent fee is not consistently charged to customers that do not make their payment by the 10<sup>th</sup> of the billing month. Delinquent fees should be assessed in accordance with city ordinance.
- F. The city has a contract with the Sewer Collector which outlines five duties the collector is to perform for a monthly fee of \$160; however, during our review of the sewer records, we noted two of the five required duties are not being performed. These duties include notifying delinquent customers and applying appropriate late charges, and keeping just and accurate records of wastewater system receipts and expenditures. In addition, the city should consider consulting an attorney regarding the legality of treating these payments as contract labor. To ensure duties are being performed in accordance with the city contract and to substantiate the monthly payment to the Sewer Collector, the board should review monthly sewer records for compliance with the city contract.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure a detailed sewer ledger which records receipts as they are received is maintained including the amount and date fees are paid and the method of payment and is reviewed for accuracy and completeness. In addition, a periodic reconciliation of total amounts due, payments received, and delinquent amounts for sewer services should be performed.
- B. Ensure monthly financial reports are prepared and reviewed for accuracy and completeness.

- C. Review sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service.
- D. Require someone independent of the sewer system to review and approve all customer removals and ensure supporting documentation is retained of such adjustments.
- E. Ensure delinquent fees are assessed and billed in accordance with city ordinance.
- F. Review monthly sewer records for compliance with the city contract, and consider consulting an attorney regarding the legality of treating these payments as contract labor.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated:*

- A. *A detailed sewer ledger will be implemented.*
- B. *Monthly reports will be reviewed for accuracy and completeness.*
- C. *Future expenditures will be monitored and the need for an increase in the sewer rates will be reviewed.*
- D. *All sewer hookups will be reviewed and procedures will be established for future removals.*
- E. *Delinquent fees will be assessed and billed in the future.*
- F. *This will be done.*

<b>2.</b>	<b>Questionable Transactions and Appointments</b>
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During our audit of the city of Hurdland, we noted various appointments and questionable transactions between the city and various board member's family, or their family corporations or businesses. These include the following:

- A.1 The June 2001 board minutes indicate Alderman Green voted to appoint his wife to perform meter readings at the city's three lift stations.
- 2. Although the May 2000 board minutes did not document who voted on the appointment of Alderwoman Schrage's husband to the board, there is no indication that Alderwoman Schrage did not approve the appointment. Alderwoman Schrage indicated that she could not remember whether she abstained from the voting.

3. The minutes for the November 2000 and the March 2001 meetings indicated prior Alderwoman Brownell voted to hire her nephew to remove snow and mow the park. He was paid \$1,367 during the period Alderwoman Brownell served as a board member. In addition, meeting minutes appeared to indicate Alderwoman Brownell approved hiring another nephew to perform street services for the city; however, the minutes did not clearly document the board's votes. He was paid \$100 during the period Alderwoman Brownell served as a board member. In addition, bids were not solicited for either of these services.

Article VII, Section 6, of the Missouri Constitution provides that any public official who names or appoints to public office or employment any relative within the fourth degree shall forfeit his office.

- B.1 During the year ending June 30, 2001, the city paid \$182 for parts to a business partially owned by Alderman McCarty and \$124 for mechanical services provided by the brother of Alderman McCarty. In addition, Aldermen McCarty approved all of these transactions, and bids were not solicited by the city.
2. Kay Field served as Mayor for the period April 1998 through April 2002. In addition to the regular compensation allowed for her duties as Mayor, \$320 was paid to Kay Field from December 2000 to January 2001 for sewer collection duties. The Mayor indicated that she paid herself from city funds for filling in for the vacant sewer collector position.

Due to the small amounts paid to these individuals, these payments were not violations of state law; however, section 105.454, RSMo 2000, prohibits financial transactions between a city and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that city that involved more than \$1,500 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received.

Because of the serious consequences which result by hiring a relative, the board should ensure its members abstain from any decisions to hire a relative and ensure that action is fully documented in the board minutes. Discussions and decisions concerning situations where potential nepotism or conflicts of interest exist should be completely documented so that the public has assurance that no city official has benefited improperly. In addition, the board should consider establishing a policy which addresses these types of situations and provides a code of conduct for city officials.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure all appointments of individuals to city positions comply with the restrictions of Article VII, Section 6, of the Missouri Constitution, in regard to the appointment of relatives. If a relative of a city official is considered for appointment, that official should abstain from voting on the appointment and that action should be adequately documented in the minutes.
- B. Avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest.

**AUDITEE'S RESPONSE**

*The Board of Aldermen will address these situations and establish ordinances and policies.*

<b>3. Expenditures</b>
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- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past year, bids were either not solicited or bid documentation was not retained in some instances. The city purchased lime and gravel for \$3,173, backhoe services for \$3,030, sewer treatment services for \$1,500, gravel for \$1,408, and drainage pipes for \$1,043.

In addition, the city solicited and received three bids for mowing services for the summer of 2001. Two of the bids were for \$75 per mowing and the third bid was for \$90 per mowing. During our review of the city's bid selection process, we noted the mowing service contract was awarded to the high bidder after he lowered his bid to \$75 per mowing. The lowering of bids negates the competitive bid process and does not provide an equal opportunity for all parties to participate in the city's business. In addition, if the city plans to renegotiate bids after the bids are received, the city should document the opportunity to renegotiate in the original bid specifications, or if the city wants to accept a higher bid, they should document the reasons for accepting the higher bid in the board minutes.

Formal bidding procedures for purchases would provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. City voters approved the construction of a new city hall in April 2000. The board obtained a ten year \$30,000 loan from their local bank which is to be renewed each year by the new Board of Alderman. Bids or proposals for these financing services were not solicited.

Soliciting proposals and entering into a truly competitive bidding process provides the city a means to select the individual and company best suited to provide the service required. Good bidding practices provide the city with a range of possible choices which should allow for a better-informed decision to be made when acquiring necessary services.

- C. The city purchased 132 t-shirts for \$1,392 and 24 hats for \$288 to be sold to city residents as a fund raiser for the construction of city hall. The city originally sold the shirts and hats at a profit; however, due to poor demand the city was forced to reduce its prices below cost. During the time period June 2001 through February 2002, only \$1,047 was collected from the sale of t-shirts and hats. These expenditures do not appear to be necessary costs of operating the city. Public funds should be expended only for costs necessary to operate the city.

- D. The board's review and approval of expenditures is not adequately documented. Although the board minutes document a general reference that invoices are approved for payment, a listing of all disbursements is not always prepared to accompany the minutes. In addition, during our review of the minutes where disbursements were reported, we noted discrepancies between the amounts reported as disbursed and the amounts actually disbursed. For example, the January 2002 minutes reported a payment to the local newspaper for \$25; however, \$83 was actually disbursed.

Expenditures made from city funds should be reviewed and approved by the Board of Aldermen before payment is made to ensure all disbursements represent valid operating costs of the city. In addition, to adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board to denote their approval, and retained with the official minutes.

- E. Receipt of goods or services is not always indicated on the invoice prior to an expenditure being approved for payment, and the invoices are not always canceled upon payment. To ensure that goods and services have been properly received by the city, all invoices and other supporting documentation should be properly initialed or signed by a city board member upon receipt, and to ensure against duplicate payment of bills, invoices should be marked paid when a check has been issued by the city.

- F. The city made several payments totaling \$122 to the Mayor for travel and meeting expenses during the year ended June 30, 2001 without obtaining adequate supporting documentation and board approval. Adequate documentation including meeting agendas should be obtained for each expenditure and reviewed and approved by the Board of Aldermen.
- G. Form 1099-Miscellaneous was not prepared by the city for real estate agent and roofing services totaling \$900 and \$700, respectively. Section 6041 and 6051 of the Internal Revenue Code require payments of at least \$600 or more in one year to an individual for professional services or for services performed as a trade or business by nonemployees (other than corporations) be reported to the federal government on Form 1099.
- H. The city does not have formal written agreements with companies or individuals providing sewer testing services totaling \$1,500 and storage rental services totaling \$340.

Section 432.070, RSMo 2000, requires political subdivisions' contracts be in writing. Formal written agreements are necessary to document each party's duties and responsibilities.

- I. The city does not maintain mileage or maintenance logs for any of the vehicles and equipment owned by the city. Several officials and contracted individuals use these city assets. In addition, the city filed a complaint with the Sheriff's office in August 2001 regarding a contracted employee that the board believed had charged gasoline to the city which was used for personal use. No charges have been filed to date. Mileage logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The mileage and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.

**WE RECOMMEND** to the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected. In addition, the board should discontinue the practice of lowering bids, or ensure that the bid specifications document the opportunity to renegotiate after the bids are opened, or document the reasons for accepting the high bid in the board minutes.
- B. Ensure future financing transactions are properly bid, and bid documentation is retained.

- C. Ensure expenditures are limited to those necessary to properly operate the city.
- D. Review and approve all expenditures of city funds prior to disbursements being made. The approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes and by performing a comparison of the listing to actual disbursements made.
- E. Require all invoices be initialed or signed by a board member to indicate acceptance of the goods or services, and all invoices be canceled when paid.
- F. Ensure adequate documentation including meeting agendas is received and maintained to support all expenditures and board approval is obtained prior to incurring travel expenses.
- G. Ensure 1099 forms are issued in accordance with IRS regulations.
- H. Enter into written agreements for all services.
- I. Maintain mileage and maintenance logs for all city vehicles and equipment.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated:*

- A. *Formal bidding policies and procedures will be established, and bids will be retained in the future.*
- B-I. *These will be done.*

<b>4.</b>	<b>Board Meetings and Records</b>
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- A. The board minutes are normally prepared by the City Clerk or by the Mayor during the City Clerk's absence, but some minutes were not signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor or another board member to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.
- B. Minutes were not prepared for three special meetings conducted on April 15, May 23, and June 13, 2000. Section 610.020, RSMO 2000, requires a journal or minutes of open meetings shall be taken and retained by the public governmental body. These minutes are to include the date, time, place, members present, members absent, and a record of any votes taken.

- C. Minutes did not always document all business conducted during the board meetings. For example, the July 2000 meeting minutes indicated the passage of a motion and the votes taken; however, the minutes did not document a description of the motion passed. Minutes serve as the only official permanent public record of decisions made by the board. Therefore, it is imperative that the minutes be prepared to clearly document all business conducted.
- D. The October 2000 and April 2001 board minutes did not clearly indicate that the new board members were sworn into office. Section 79.260 RSMo 2000, indicates every officer of the city and his assistants and every councilman, before entering upon the duties of his office, shall take and subscribe to an oath or affirmation before some court of record in the county, or the city clerk, that he possesses all the qualifications. Board minutes should clearly document when city officials are sworn into office.

In addition, these board minutes appear to indicate that the new board members were voting before being sworn into office and the old members continued to vote on motions after the new members were apparently sworn into office. For example, six board members voted on all motions at the April 2001 meeting when only four voting board positions exist according to city ordinances. To ensure city business is conducted properly, only active board members should be allowed to vote.

- E. City officials indicated that a tentative agenda is prepared and posted for each board meeting; however, only two agenda's were retained during the year ending June 30, 2001. In addition, one of these agenda's did not document the items to be discussed at the meeting. State law requires all public governmental bodies to give advance notice of meetings either through the news media or posting notice of the meeting. The notice is to include the time, date, and place of the meeting, as well as the tentative agenda. To document compliance, the City Clerk should document the date, time, and location the notice was posted and retain this with the minutes.
- F. The city does not have a formal policy regarding public access to city records. A formal policy regarding access and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo 2000, lists requirements for making city records available to the public. Section 610.026, RSMo 2000, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

**WE RECOMMEND** to the Board of Aldermen:

- A. Ensure minutes are signed by the City Clerk and the Mayor or another board member.
- B. Ensure minutes are maintained for all meetings conducted.
- C. Ensure minutes clearly document all business conducted.
- D. Ensure minutes clearly document the swearing in of new board members. In addition, ensure only active board members conduct city business.
- E. Retain adequate supporting documentation to demonstrate that the board provided proper notice for each of its meetings.
- F. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated:*

*A-D. These have been implemented.*

*E-F. These will be done.*

<b>5. Budgeting, Planning, and Published Financial Statements</b>
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- A. The budgets for the years ended June 30, 2002 and 2001, did not include a budget message, actual (or estimated for the years not yet ended) revenues and expenditures for the two preceding budget years, or the beginning and the estimated ending available resources. The budgets showed only anticipated revenue and expenditure activity. In addition, a budget was not prepared for the Sewer Replacement Fund, the Sewer Reserve Fund, the Sewer Tax Fund, Sewer Bond Fund, and the Community Developmental Block Grant Fund. Section 67.010, RSMo 2000, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and

expenditure estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

- B. Actual expenditures exceeded budgeted expenditures for the Sewer Operating Fund for the year ended June 2001 by \$16,684. In addition, the board does not monitor actual costs by periodically comparing budgeted amounts to actual expenditures. Section 67.040, RSMO 2000, indicates a political subdivision shall not increase the total amount authorized for expenditure from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures.
- C. The Sewer Operating Fund budget for the year ended June 30, 2002 and June 30, 2001 was not approved until July 10, 2001 and July 18, 2000, respectively. Section 67.070, RSMo 2000, requires that if a new budget is not adopted by the beginning of the new year then the board should operate under the prior year's budget. To be of maximum benefit to the taxpayers and the city, the budget should be adopted prior to the beginning of the fiscal year.
- D. The city published semiannual financial statements for the six months ending June 30, 2001 and December 31, 2000; however, the financial statements did not include the City Hall Fund, Community Development Block Grant Fund, or the interest earned and the balance of a certificate of deposit in the Sewer Operating Fund.

Section 79.160, RSMo 2000, requires the Board of Aldermen to prepare and publish, semi-annually, a full and detailed account of the receipts, expenditures, and indebtedness of the city. Accurate and detailed financial statements are necessary to keep the citizens informed of the financial activity and condition of the city. In addition, Section 79.165, RSMo 2000, states the city cannot legally disburse funds until the financial statements are published.

- E. An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law.
- B. Periodically compare year-to-date expenditures with budgeted amounts to monitor the city's finances and to ensure actual expenditures do not exceed budgeted amounts. If additional expenditures are necessary, the budget should be amended and the circumstances adequately documented.
- C. Ensure budgets are prepared timely and in compliance with state law.
- D. Publish semiannual financial statements as required by state law.
- E. Establish a formal annual maintenance plan for city streets.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated:*

*A-D. These will be done in the future.*

*E. They will consider establishing a formal maintenance plan.*

<b>6. Ordinances</b>
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The city's ordinances are not complete and up-to-date. Our review noted the following:

- 1. The city maintains an ordinance index documenting ordinances passed by the city; however, several ordinance numbers and the date each ordinance was passed was not always included.
- 2. The city has not adopted ordinances to establish the compensation of the Board of Aldermen, the City Clerk, the Sewer Collector, and the City Treasurer. In addition, the city has not adopted an ordinance regarding the Sewer Collector's duties. Sections 79.270 and 79.290, RSMo 2000, require the compensation and duties of city officials and employees to be set by ordinance.
- 3. Sewer customers are required to pay an annual fee of 80 cents to the city for sewer operations; however, the city does not have an ordinance that addresses this fee.

4. The city has not complied with City Ordinance-111. This ordinance indicates the city shall collect a \$50 permit fee from contractors before any person, firm, partnership, or corporation, shall dig into or disrupt in any manner the surface of any street or alley within the city; however, this fee is not collected.

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city ordinances be maintained in a complete, well-organized, and up-to-date manner.

**WE RECOMMEND** the Board of Aldermen ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.

### **AUDITEE'S RESPONSE**

*The Board of Aldermen indicated ordinances are currently being updated.*

<b>7. Accounting Controls and Procedures</b>
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The city accepts cash, checks, and money orders for payment of county taxes, business and liquor licenses, and other miscellaneous receipts.

- A. The city does not issue prenumbered receipts slips. To account for all receipts and ensure all receipts are deposited, prenumbered receipt slips should be issued for all monies received, reconciled to the composition of monies deposited, and the numerical sequence of receipt slips should be accounted for properly.
- B. Receipts were not deposited intact on a timely basis. Monies generally get deposited about four times a month. The city received a check on January 22, 2001 for \$2,242; however, it was not deposited until February 7, 2001.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all deposits should be made intact daily or when accumulated receipts exceed \$100.

- C. City residents and contractors are required to pay the city a \$500 deposit before digging in the public streets and alleys of the city. The City Treasurer holds these funds until the street or alley has been restored to its existing condition and then returns the deposit to the resident or contractor. For example, the city received a \$500 deposit in October 2001 and returned it to the resident in March 2002. These monies were never deposited into the city's account. In addition, the city does not maintain a listing of customer deposits being held by the city.

The city should ensure all customer deposits are deposited into the city bank account, and identify all customer deposits that should currently be held by the city and keep the listing properly updated. Deposits received by the city should be held in trust and not used for operating expenses. The listing of deposits should be reconciled to the deposits in the account monthly to ensure that sufficient funds are available for the payment of all liabilities.

- D. Checks and money orders received are not restrictively endorsed until the deposit is prepared by the City Treasurer. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- E. Currently, the city requires two signatures on all checks issued; however, during the year ended June 30, 2001 only one signature was required. In addition, the Mayor signed her own checks for travel expenses and supply reimbursements while the City Treasurer's position was vacant. Dual signatures help provide assurance that checks represent payments for legitimate city expenditures.

In addition, one of the Board of Aldermen is authorized to sign checks; however, he is not bonded. Failure to bond all persons with access to assets exposes the city to risk of loss.

- F. The City Treasurer prepares a monthly disbursement ledger and financial reports; however, they were not always accurate or complete. The Sewer Operating Fund ledger did not include receipts totaling \$622 during the year ended June 30, 2001. As noted in MAR #2, numerous financial errors were also noted on the monthly financial reports prepared for the board. Several monthly reports did not foot, and the ending balance for some months did not always agree to the following month's beginning balance. The City Treasurer indicated that she normally obtained the beginning balances for the financial reports from the prior months report and did not verify the accuracy of the balances reported. In addition, a monthly report was not always prepared for the City Hall Fund.

A monthly disbursement ledger and financial report should be prepared to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. In addition, to ensure all revenues and expenditures are accounted for properly, the reports should be reviewed for accuracy by the Board of Aldermen. Documentation of these reports should be retained to ensure all transactions are properly approved and to facilitate independent reviews.

- G. Bank reconciliations are not performed monthly, and checkbook balances were not maintained during most of the year ending June 30, 2001. These problems also contributed to the inaccurate financial reports noted in part F. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis.

In addition, checks totaling \$48 written on the general account have been outstanding for more than one year. Outstanding checks should be periodically reviewed to determine if the payees can be readily located and if there is a need to reissue the checks. If the payees cannot be located, the amount should be disbursed to the state's Unclaimed Property Section as required by Section 447.595, RSMo 2000.

- H. The city maintains ten bank accounts. Except for a separate account for the Sewer Debt Service Fund, it appears that the remaining bank accounts could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled.

The city also maintains a sewer operating account into which sewer fees are deposited to cover the costs of operating the sewer system and a sewer bond account into which sewer fees are transferred to make sewer bond payments. Overdraft and service fees totaling \$123 and \$44 were charged to the city from the Sewer Operating fund and the Sewer Bond fund, respectively. The city should ensure sufficient funds are maintained in these accounts.

In addition, the city maintains substantial funds in non-interest bearing accounts. At June 30, 2001, \$9,068 was maintained in non-interest bearing accounts. The failure to have funds in interest-bearing accounts results in the loss of revenues. To maximize interest earnings, all funds should be placed in interest-bearing accounts.

- I. During most the year ending June 30, 2001, the City Clerk also served as the City Treasurer and the Sewer Collector and this individual was responsible for most of the record keeping duties of the city. These duties included receiving and depositing monies, preparing and co-signing checks, and preparing monthly financial reports. As of April 2002, separate individuals hold these positions; however, adequate supervision or an independent review of work performed is not being conducted.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and depositing monies from preparing checks and performing bank reconciliations. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the accounting records maintained.

**WE RECOMMEND** to the Board of Aldermen:

- A. Require prenumbered receipt slips be issued for all monies received, reconcile the composition of monies collected to receipt slips and bank deposits, and ensure the numerical sequence of receipt slips issued is accounted for properly.

- B. Ensure all receipts are deposited intact daily or when accumulated receipts exceed \$100.
- C. Ensure the city deposits all customer deposits, maintains a complete listing of deposits, and periodically reconciles the listing to monies held by the city.
- D. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- E. Ensure two signatures are required for all checks written by the city. In addition, obtain bond coverage for the Board of Alderman.
- F. Ensure monthly ledgers and financial reports are prepared for all funds and reviewed for accuracy and completeness.
- G. Ensure bank reconciliations are prepared monthly for all city accounts. In addition, reissue old outstanding checks to any payees who can be located or dispose of these monies through the applicable statutory provisions.
- H. Consider consolidating the city's ten bank accounts. In addition, ensure sufficient funds are maintained in the city accounts, and maintain all funds to the extent possible in interest-bearing accounts.
- I. Provide for an adequate segregation of duties or the performance of independent reviews of the accounting records.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated:*

*A. They will consider issuing prenumbered receipt slips.*

*B, D,  
& G. These have been implemented.*

*C, F,  
& I. These will be done in the future.*

*E. Two signatures are now required on all checks, and bond coverage will be obtained.*

*H. They will consider consolidating these accounts into interest bearing accounts, and have already implemented procedures to ensure insufficient fund charges will not be incurred in the future.*

**8.****Restricted Revenues**

- A. The city has established a separate accounting system in the General Fund for the state motor vehicle-related revenues and expenditures; however, the city did not account for \$4,772 and \$2,180 of these state motor vehicle-related revenues in the General Fund-street subsidiary account during the year ending June 30, 2001 and the period July 2001 through March 2002, respectively.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be expended for street-related purposes only including policing, signing, lighting, and cleaning of road and streets. To ensure compliance with the Missouri Constitution, the city should ensure these receipts are used only for the purposes allowed by the constitution.

- B. Documentation does not exist to support the allocation of some expenditures to the city's funds. We noted the following examples:
1. In October 2000 and February 2002, the city paid an accounting firm \$694 and \$450 out of the General Fund and the Sewer Operating Fund, respectively, to prepare the semi-annual published financial statements.
  2. Rent totaling \$1200 was paid from the Sewer Operating Fund to the City Hall Fund during the year ended June 30, 2001 to aid in paying the monthly loan payment on the new city hall building.

The funds of the city are established as separate accounting entities to account for specific activities of the city. Generally accepted accounting principles and various legal restrictions require revenues and expenses associated with specific activities be reflected in the fund established to account for those activities. Reflecting revenues and expenses in the proper fund is also necessary to accurately determine the results of operations of specific activities, thus, enabling the city to establish the level of taxation and/or user charges necessary to meet all operating costs. User rates should be set to cover costs of producing and delivering the service and not to generate profits to subsidize other services provided by city government.

**WE RECOMMEND** the Board of Aldermen ensure all revenues and expenditures are properly allocated to the applicable city funds to ensure compliance with the Missouri Constitution and develop and implement a reasonable method for allocating common costs between the city's funds.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated that this has already been implemented.*

**9.****Property Records**

The city does not maintain complete records to account for all property owned by the city. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the assets including the name, make and model numbers, asset identification numbers, the physical location of the assets, and the date and method of disposition of the assets. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories

In addition, the city did not maintain insurance coverage for the contents of city hall including a computer, fax machine, and file cabinets, and other equipment including a hedge trimmer, snow blade, motor grader, weedeater, sickle mower, and a lawnmower.

Adequate general fixed asset records are necessary to secure better internal controls and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

**WE RECOMMEND** the Board of Aldermen ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. The city should also properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory. In addition, the city should ensure adequate insurance coverage is obtained for all city assets.

**AUDITEE'S RESPONSE**

*The Board of Aldermen indicated records will be established and insurance coverage will be obtained.*

This report is intended for the information of the management of the City of Hurdland and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF HURDLAND, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of Hurdland is located in Knox County. The city was incorporated in 1872. The population of the city in 2000 was 239.

The city government consists of a five member board of aldermen including the mayor. The board members are elected for two-year terms, two from each of the wards. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in a case of a tie. The city officials at June 30, 2001 were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Actual Compensation for the Year Ended June 30, 2001</u>
Kathleen Field, Mayor (1)	April 2002	\$500
Doug Rice, West Ward Alderman	April 2003	10
Leon McCarty, West Ward Alderman (2)	April 2002	60
Lewis Ward, East Ward Alderman (3)	April 2003	40
Luther Green, East Ward Alderman (4)	April 2002	10
 <u>Other Principal Officials</u>		
Adiene Riley, City Clerk, Treasurer, and Sewer Administer (5)		1,040

- (1) Earl Kull was elected in April 2002.
- (2) Vernon (Buddy) Funk was elected in April 2002.
- (3) Lewis Ward resigned in February 2002. Lori Moots was appointed in February 2002 to fill the position of alderwoman.
- (4) Luther Green was appointed to fill the vacated position of Victor Peterson in April 2001. Harry Holman was elected in April 2002.
- (5) Adriane Riley was appointed to fill the vacated position of city treasurer in September 2000, city clerk in November 2000, and sewer collector in February 2001. Raelene Walton resigned as City Treasurer and Sewer Collector in September and November 2000, respectively. Lisa Shrouf resigned as City Clerk in November 2000. Kathy Hamlin was appointed as City Treasurer and Joe McGlothlin was appointed as City Clerk in April 2002.

The elected and appointed officials of sewer collector, mayor/marshal, and city clerk are covered by a \$15,000 blanket bond and the city treasurer is covered by a \$10,000 bond.

The city entered into a ten year loan agreement in July 2000 for \$30,000 with an interest rate of 6.75% to build a new city hall. The city is currently making monthly payments of \$390. The outstanding loan balance at June 30, 2001 was \$28,455.

The city entered into a bond agreement in August 1993 for \$38,000 with an interest rate of 6.60% for the purpose of paying part of the cost of acquiring and constructing a sewerage system. The outstanding loan balance at June 30, 2001 was \$29,000.

Assessed valuation and tax rate information for tax year 2000 are as follows:

ASSESSED VALUATION

Real estate	\$ 375,731
Personal property	188,306
Railroad and Utility	<u>129,064</u>
Total	<u>\$ 693,101</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Revenue	\$.69
Fire	.25
Debt Service	.65

A summary of the financial activity for the city of Hurdland for the year ended June 30, 2001, is presented below:

	General Fund	Sewer Operating Fund	Sewer Reserve Fund	Sewer Replacement Fund	Sewer Tax Fund	Sewer Bond Fund	City Hall Fund	Community Development Block Grant Fund	Total
<b>RECEIPTS:</b>									
Motor fuel and motor vehicle fees - general	2,735	0	0	0	0	0	0	0	2,735
- street	6,087	0	0	0	0	0	0	0	6,087
Property taxes	\$ 10,886	0	0	0	0	0	0	0	10,886
Licenses, permits, and other taxes	4,423	0	0	0	0	0	0	0	4,423
Sewer fees	0	14,354	0	0	0	0	0	0	14,354
Interest	338	813	53	86	73	49	0	19	1,431
Community development block grant	0	0	0	0	0	0	0	28,165	28,165
Fundraising proceeds	0	0	0	0	0	0	121	0	121
Proceeds from sale of city property	0	0	0	0	0	0	15,000	0	15,000
Loan proceeds	0	0	0	0	0	0	30,000	0	30,000
Other	2,314	4,410	0	0	0	0	2,064	0	8,788
Transfers in	0	402	480	900	0	8,293	1,300	8,533	19,908
<b>Total Receipts</b>	<b>26,783</b>	<b>19,979</b>	<b>533</b>	<b>986</b>	<b>73</b>	<b>8,342</b>	<b>48,485</b>	<b>36,717</b>	<b>141,898</b>
<b>DISBURSEMENTS:</b>									
Salaries - City officials	780	1,920	0	0	0	0	0	0	2,700
Contracted labor	0	4,760	0	0	0	0	0	0	4,760
Supplies and expense - general	2,914	0	0	0	0	0	0	0	2,914
- streets	16,655	0	0	0	0	0	0	0	16,655
- fire	1,329	0	0	0	0	0	0	0	1,329
- sewerage	0	13,334	0	0	0	0	0	0	13,334
Loan payments - sewer	0	4,644	0	0	0	6,849	0	0	11,493
- city hall		0	0	0	0	0	4,272	0	4,272
Utilities-electric	2,993	448	0	0	0	0	0	0	3,441
- water-general	630	0	0	0	0	0	336	0	966
- sewer	175	0	0	0	0	0	0	0	175
Construction	0	0	0	0	0	0	34,506	0	34,506
Community development block grant	0	0	0	0	0	0	0	18,732	18,732
Fundraising expense	0	0	0	0	0	0	1,680	0	1,680
Other	4,397	1,631	0	0	0	0	1,339	0	7,367
Transfers out	8,045	3,380	0	0	0	0	0	8,483	19,908
<b>Total Disbursements</b>	<b>37,918</b>	<b>30,117</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,849</b>	<b>42,133</b>	<b>27,215</b>	<b>144,232</b>
Receipts Over (under) Disbursements	(11,135)	(10,138)	533	986	73	1,493	6,352	9,502	(2,334)
Cash Balance, July 1	23,435	22,972	2,397	3,807	3,621	2,559	0	0	58,791
Cash Balance, June 30	12,300	12,834	2,930	4,793	3,694	4,052	6,352	9,502	56,457

\* \* \* \* \*